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JOHN McMAHON'S REMARKS

TO THE

COMMONWEALTH CLUB OF CALIFORNIA

SAN FRANCISCO

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Thank you Ambassador Black. Those are very kind words that you run through the listing of the various jobs that I've had. I realize that I must've been one step ahead of the Sheriff all the way.

I thank you for this invitation. I must say that I must express my admiration to citizens of the United States that are interested in world affairs, domestic affairs, international affairs to spend their time, their own time, to improve their own knowledge of what's going on in the world. And I hope that after lunch today you won't find that it has been a failure.

I have two tenets that I abide by. One is the old adage that the only thing worse than giving a talk after lunch is listening to one; so I'll try to be as versatile as I can. The second comes from Anne Chennault, the wife of the famous general in the Flying Tigers. Once he stood up after dinner to talk, "I believe after dinner speeches ought to be like mini skirts -- long enough to cover the subject but short enough to be interesting." I'd like to say a few words today about how we see things in the world and then take time to answer any questions that you may have.

First and foremost in our mind remains the Soviet Union, as it always has been, right from the first days after World War II, dominated our interest and still does so today. Of course as great Kremlin watchers, we look at what's going on with the boss over there, and Andropov's health is very much in the forefront of our thoughts. He obviously suffers from heart disease. He has a long history of hypertension and there are indications that in the past few months he is suffering from some kidney ailment, some sort or another.

The question is what does that mean? And I think the answer is nothing. Andropov is a transitional leader in the Soviet Union and whether he dies

tomorrow or two years from now makes no difference. CIA has been smart enough over the past few years to realize that it's a very tenuous situation when we try to predict the demise of world leaders. We buried Chairman Mao some twenty times before he finally died, so since that time, we don't predict that anyone might cash it in.

But Andropov really hasn't changed anything that much in the Soviet Union. He has been an individual really of continuity rather than any substantive change. He has gone more towards form than substance. He is trying to clean up corruption in the Soviet Union and instill discipline in the Party ranks and that seems to be where he has devoted his attention. It's quite obvious that he is in power. He is calling the shots and his desires have been manifested in all the documents and announcements even there after his absence. We feel that at some time when his political visibility comes forth again that he will do much more than what he's doing now.

It's quite obvious that his protégés, those individuals who are very much of the military industrial complex in the Soviet Union, are very much in power there. The last four gentlemen that were appointed at the Second Committee Plenum in the Supreme Soviet session recently were all protégés of Andropov, yet they all came from the military industrial complex. It's obvious that Ustinov, the Minister of Defense, is a key ingredient in Soviet policy and was very much involved in making sure that Andropov moved in. Gromyko is also a strong supporter of armament talk, but he doesn't pull the clout in the Soviet Union that Ustinov does. There are two individuals we feel that are being groomed to replace Andropov -- one is Romanov, First Secretary from the Leningrad, and the other is Gorbachev. What makes it interesting is that

Romanov is about 60 and Gorbachev is about 52 which, when we look at the hierarchy in the Soviet Union, they are considered young whippersnappers.

The Soviet Union has continued to expand a large military organization. Since 1975 they added some 2,000 strategic missiles to their inventory, some 5,000 combat aircraft and some 15,000 tanks. They've postured themselves so that they can extend their influence and dominance outside the Soviet Union as you witnessed in Afghanistan today. If you stop and look at the world map, you see where the Soviets have tried to posture themselves in key strategic locations around the world, either where strategic minerals are located in Africa or choke-points in canals such as Uga and Nicaragua and now Panama, in Vietnam that covers not only Southeast Asia but also the Indian Ocean and in South Yemen and Ethiopia where they can control the Suez Canal, let alone the easy reach they have through Baluchistan into the Persian Gulf. They're doing all they can to woo the Iraqis with military supplies in the war against Iran and of course we see them very heavily committed in Syria some 2,000 military advisers as well as an inordinate amount of air defense system in tanks and military supplies which accorded to Syria.

While one can stand in awe at this, one has to realize that it's quite a commitment by the Soviet Union to do that. Here's a nation that so far in this decade has grown maybe at most 2-2 1/2% a year. To project that for the rest of the decade, they won't grow much more than 2%. And yet they commit 14% of their gross national product to defense. That's well over twice as much as the United States does. So they are committed not to be second best when it comes to military capabilities.

Things haven't gone well for them though. They're not ten feet tall. They continue to have trouble with China even though they'd like to solve that problem []. They were tossed out in Egypt, which we are grateful for and they, in spite of a full court press on Europe, witnessed the deployment of the Pershings really over their dead bodies. They had a great deal of diplomatic as well as threats and coercion on Europe to stop those deployments. So they are having a tough time and they're having a tough time economically ahead.

That does not stop them from toying with us around the world, particularly in our backyard in Central America. We still see an enormous amount of supplies moving into Nicaragua through Cuba from the Soviet Union and other Eastern Bloc nations. The Nicaraguan army today numbers 30,000 regular troops compared to 9,000 during Somoza's time and 15,000 during the height of his war just before he was tossed out of Nicaragua. In addition to that 30,000 in the regular army, they have some 70,000 militia. They built up 40 bases, new army bases, air bases, since 1979 and they have become an formidable force in Central America, particularly compared to the other nations there.

The insurgency in Nicaragua continues to draw a great deal of criticism on the part of the Sandinistas and they have the Sandinistas very much on the run. It is certainly not a threat to overthrow the Sandinistas and it is not intended. What we do see, though, is that the various insurgents -- the FDN, Pastora, ARDE, Moskitos -- are making some talks that they might form a coalition. This is quite a concession on Pastora's part who you must remember remains a Sandinista first and foremost. It's just that he broke away from

the Sandinistas even though he was one of the leaders of the revolution because they began to succumb to the Cubans and Soviet influence, and he wanted to keep the Nicaraguan revolution Nicaraguan. Some day when the time's right, Pastora will go his own way, but it is interesting for the moment that he is prepared to coalesce with the others against the Sandinistas.

Life in El Salvador is troublesome to us. The insurgents continue to have a great deal of success which demoralizes the army which has improved over the years. The army only is about 37,000; the guerrillas in El Salvador number around 12,000. The ratio of 4 to 1 is bad. That's the wrong ratio when you're trying to quell an insurgency so the army has [C]. The biggest problem we have with El Salvador is the human rights violations. It's deplorable. The right-wing death squads operate with immunity. American labor unions have been killed and no one has done anything about it. Nuns were killed, years and years trying to find the people who killed them. D'Aubuisson and his right-wing crowd continues to enjoy a great deal of support in order to placate pressure from the United States that the El Salvadoran government "exiled" some of the hard right-wing death squad leaders to diplomatic posts. Forgive me for acknowledging, Shirley, but what's sad about it is they replaced them with people we believe that [C].

So we have a difficult time in El Salvador trying to not only help them quell the insurgency which is just draining Central America. Central America's production is down 20% in the last couple of years and that just compounds the economic problems throughout that entire area. I think if you read the Kissinger report, which is a very balanced report, you see that it calls for aid not only in a military sense to help beef up the ability of the

governments to protect themselves from insurgencies, but also a strict law and order police force which will permit a human rights program to exist in these factions and then of course helping them in economic aid which is essential in ramifications to all of the Central America knows quite obvious. We see the Nicaraguans trying to move insurgents into Honduras. We've seen constant threat in Guatemala and even in Mexico. In fact, some insurgencies operate out of Mexico into El Salvador. The Mexicans themselves have their problems as you well now know with their \$83 million debt, but also in the flow of illegal immigrants into the United States which by some form of Kentucky windage, we size about a million and a half last year with the prospect that that's going to grow. If we can't bring some stability into Central America, we'll see a great migration of people out of the poor, starving villages of Central America into the United States just looking for the prospect of some home, help in a lifestyle that they can live with.

In the Middle East, it's very difficult. There's no easy answers in Lebanon. Amin Gemayel is damned if he does and damned if he doesn't. He has the Christian Phalange threaten him on one side if he concedes to the Muslims; he has the Muslims on the other side saying that he's on with the Christians. The Lebanese army which is composed of a mixture of Maronite Christians as well as Muslims is torn apart depending upon where they try to attack and how they try to move to bring law and order to the country. Assad in Syria sits in the driver's seat. He can cause problems in Syria any time he wants to and does. Any time it looks like Amin Gemayel is moving toward some concession with the Druze and the Shia, then Assad [C] threatens them or threatens Gemayel directly. It's a very difficult situation. Our only hope

is that we can form some form of government under Gemayel which has a more representative aspect to it and will permit the rest of the Western nations to rally around it and maybe bring some sense out of what exists there. When emotions are very high, you get deep-rooted judicious factions and tenets there which are difficult to understand and the place is best described as being a zoo because when they're not fighting the United States, they're fighting with each other.

Out of this Lebanon we've seen recently, the focus being drawn on Americans by terrorism. That's not new. Americans have been the leading targets for terrorism for years. You didn't hear much about it because a great deal of it was in the form of acquiring funds. When the local terrorists ran out of money, they would kidnap the local American businessman and hold him for ransom. Then when they got the ransom, they were all set for their next fiscal year and they would do it until they ran out of money again. But now ever since the Iranian situation, the overthrow of the Shah, Khomeini has come on board, there is a fanatical hatred from the Iranian Shiites against the United States and against Americans. And their target is Americans wherever.

We now see Syria, Iran, and Libya very much in support of terrorist groups that will go after Americans, either American installations or American individuals. If they're not using bombs to blow up our installations or our people, then they're using plain old assassination attempts. Americans are now targeted. It's not just businessmen; it's [C].

We've been spared terrorists anywhere in the United States, but it's coming to us sure as [B]. It's very easy to move in and out of the

United States. These religious fanatical groups who can get a quick trip to heaven by blowing up an American or killing an American is a great inducement. With this fanaticism now very much on the rampart, we indeed in the intelligence business have our hands full.

At one time we were pretty good in this business because the terrorist groups were large and we could infiltrate them and we could have agents that could tip us off as to what they were doing and we could neutralize those acts. By neutralize I mean in a non-lethal sense. Either you could expose it, give them all [C] country to handle it, [C] things like that. Terrorism has now moved into small groups. Almost mom and pop outfits. Very difficult to penetrate. Very small numbers. Even though today there are some 50 major terrorist groups, we now count an additional 100 small [C] groups quite prepared to blow up Americans. And I fear that the Olympics will be a great drawing card for terrorism because they'll have high populistic and inject great shock value with all the nations involved in the Olympic process.

Another thing that bothers us is narcotics. That is an insidious program right here in the United States. Forty-one million Americans last year paid \$80 million for illegal narcotics.

Narcotics are flowing in from South America, the Golden Triangle of Southeast Asia, from Afghanistan, Pakistan and Iran through southern parts of Italy and in the United States. They come in containers; they come in aircraft. The program is so lucrative, so much money is involved that they can buy one airplane just for one flight and they've been [C] the other day when they had over \$3 billion from illegal narcotics catch.

We tried to interdict, stem the flow of narcotics. We can expose ^{TOP} governments and high government officials overseas that have their hands in it, facilitating the flow of narcotics. We now begin to focus realizing that it's just sticking your finger in the dike because there's so much money involved. You can shut off one lane for one trafficker and there's 20 others to take their places. The little farmer in Colombia who grows his local crop and makes \$70 a month. If he grows marijuana, he makes \$1300. It's an easy choice for him to make.

What we want to do is go after the money that's involved. A lot of that money we estimate over \$40 million is being laundered probably into the United States, shopping centers, hotels, businesses, churches. If we can go after that flow of money and how that money is cleaned up then maybe we can begin to hurt the big players where it hurts. That might be the only hope we have.

Another thing that dominates our time and I'm sure everyone here is well aware of that is the plain old economic situation in the world. Ten years ago the lesser developed nations owed \$55 million in medium and long-term debt. Today that figure is \$800 billion and that has an obviously cascading effect unless some sturdy measures are put in in order to prevent the countries to fall apart and lie down to more tighter bank loans, that creates uneasiness, [^C] if you don't get the imports, you can't get the exports, so this is a spiraling effect. And there's a great seed ground for political instability.

If you talk economics, you have to look at what's happening in the world and the evolution particularly as you look at Western Europe and Japan. We now see that the United States, that at one time virtually owned any market it

wanted to overseas, suddenly finds itself competing head to head. We find that our friends can be dangerous to us as our enemies when it comes to international economics. We see Japan that taught Detroit a lesson moving out to take us on in the computer world and we deal with a system that's different than ours. It's not a free enterprise system. Western Europe and in Japan you have heavy government involvement.

Look what happened when France decided to take Boeing on on the Airbus. The government of France put \$1.2 billion into the development of the Airbus. They're putting another \$1.3 billion into marketing it. They subsidize the company \$400 million a year and they grant 3 1/2% guaranteed loans to the countries to buy the Airbus and give up their loans. We, as a government, expect Boeing to take on the government of France?

It's happening today in Japan where you have heavy involvement of the bank of Japan and the government of Japan dealing with private U.S. companies. I guess that to me suggests that maybe we have to take a look at our antitrust laws to see if they're in tune with the modern-day world because the economic war is a real one and it has dramatic implications for the United States in [C].

With that I think I've gone on and I will pause to take any questions you may have.